

January 2015

## CBI response to FRC discussion paper on UK Board Succession Planning

- 1) We welcome both the opportunity to respond to this consultation and the FRC's focus on succession planning. Business has a keen interest in securing the right leadership capabilities to underpin long-term success and further guidance for companies on how this can best be achieved would add value.
- 2) From the CBI's perspective it is important to make clear from the outset that succession planning is about more than just identifying the suitable person to consider as 'next in line' for key positions. Succession planning is also about the specific types of skills that an individual business needs and whether the current board is also in a position to meet future skills needs.
- 3) We see succession planning as having two distinct areas. The first involves succession planning for the Board and ensuring the right skills on the Board, which is where the Nominations Committee (NomCo) plays a primary role. The second area is succession planning for the leadership team, ie executive management, where there is Board oversight and checks and balances through the NomCo and Remuneration Committee, but where the CEO needs to have a leading role, rather than the Board.
- 4) With this in mind, our response includes more specific comments on the following issues:
  - **The role of the board in succession planning**
  - **The role of shareholders in shaping companies' succession plans**
  - **The role of disclosures**

### The role of the board in succession planning

- 5) Businesses and investors agree that discussions about succession planning should take place with involvement of all board members – both executive and non-executive – as robust succession planning is an important pillar to the long-term success of a company.
- 6) However, we are concerned that giving the board as a whole more responsibility for talent management would move non-executive directors into executive territory, a step that we believe should be avoided in order to guarantee that non-executives remain independent and are able to exercise constructive challenge. The key positions of CEO and CFO are exceptions here, as there will be greater Board involvement due to the strategic significance of these roles.
- 7) So as in accordance with Supporting Principle B.2 of the Corporate Governance Code, the board as a whole *'should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board and to ensure progressive refreshing of the board'*.
- 8) However, we believe that the detailed execution of these plans and related talent management should be carried out by the executive team and overseen by the chairman. This way, non-executives can continue to offer insights to the process without putting their strategic outsider perspective at risk.

- 9) As for the NomCo, we believe that the NomCo should take a continuous and long-term approach to succession planning, considering wider strategic issues and setting this in the context of board effectiveness and diversity. In order to achieve this, it may in certain circumstances also be beneficial to involve the whole board on the subject of key management roles in order to include factors such as remuneration in the discussion. This will ensure a more holistic approach compared to different board committees operating in isolation.
- 10) In organisations where this is already occurring at a fairly sophisticated level, it will not necessarily add more value for the committee to meet more than the average three to four times a year. However, if organisations do not yet feel that their processes around succession are thoroughly long-term and strategic, then it would be useful for the NomCo to meet more frequently in order to develop these processes and to make sure they are fully embedded and subsequently kept up to date.

## The role of shareholders in shaping companies' succession planning

- 11) We recognise that shareholders have a strong interest in how the boards of the companies they are invested in operate. This interest tends to be of a general nature and succession planning will typically be viewed in a wider context that also includes diversity and board effectiveness.
- 12) However, investors agree that they will prefer to leave it to companies to exercise judgement over individual appointments, and would only expect companies to contact their top shareholders to gain their thoughts on individuals at an appropriate time. A wider consultation with shareholders on the nomination of individual board members would only be expected if there has been a significant problem in the company.

## The role of disclosures

- 13) In terms of introducing further disclosures on the contribution of individual board members, we are uncertain about whether this is the right answer to what is undoubtedly the right question. While we believe that it will be beneficial for investors to fully understand the thinking behind the composition of the board and changes to it, there is a risk that introducing a formal disclosure requirement in the annual report for the purposes of conveying this information might just result in this being treated as another add-on disclosure, therefore simply creating more clutter rather than offering comprehensive insights.
- 14) Regardless of the format in which this information is shared, however, we firmly believe that it is in the best interest of companies to avoid overdependence on key individuals and that companies will ideally manage the composition of the board in the broader context of board effectiveness and future skills needs. In this context, it would be worth exploring whether existing disclosure requirements already allow companies to demonstrate efforts around this to investors in a more meaningful way.